



**Auditor of State
Betty Montgomery**

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

East Muskingum Local School District
Muskingum County
13505 John Glenn School Road
New Concord, Ohio 43762-9702

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 29, 2005

**East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

The discussion and analysis of the East Muskingum Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- In total, net assets of governmental activities decreased \$264,647.
- General revenues accounted for \$14,341,304 in revenue or 82.6 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,023,644 or 17.4 percent of total revenues of \$17,364,948.
- Total assets of governmental activities decreased by \$1,522,764. The majority of this decrease is due to a decrease in taxes and intergovernmental receivables in the amount of \$179,910 and \$503,576, respectively. Total liabilities of governmental activities decreased by \$1,258,117. The majority of this decrease is due to a reduction in contracts payable of \$863,563 as a result of the Ohio School Facilities Project nearing completion.
- The School District had \$17,629,595 in expenses related to governmental activities; only \$3,023,644 of these expenses were offset by program specific charges for services, grants or contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) of \$14,341,304 were not adequate to provide for these programs.
- The School District has three major funds; the General Fund, the Permanent Improvement Capital Projects Fund, and the Classroom Facilities Capital Projects Fund. The General Fund had \$14,107,822 in revenues and \$14,622,084 in expenditures. The General Fund's balance decreased \$272,564. The Permanent Improvement Capital Projects Fund had \$580,700 in revenues and \$1,058,794 in expenditures and the fund balance decreased \$478,094. The Classroom Facilities Capital Projects Fund had \$647,904 in revenues and \$7,075,140 in expenditures and fund balance decreased \$6,427,236.

Using this Basic Financial Statements Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the East Muskingum Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

**East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of East Muskingum Local School District, the General Fund, the Permanent Improvement Capital Projects Fund, and the Classroom Facilities Capital Projects Fund are the major funds.

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2003-2004 fiscal year?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, extracurricular activities, and debt service.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Permanent Improvement Capital Projects Fund, and the Classroom Facilities Capital Projects Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental *funds* is reconciled in the financial statements.

**East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$16,130,998	\$24,800,653
Capital Assets	28,239,953	21,093,062
Total Assets	44,370,951	45,893,715
Liabilities		
Long-Term Liabilities	(9,583,127)	(9,618,837)
Other Liabilities	(5,584,314)	(6,806,721)
Total Liabilities	(15,167,441)	(16,425,558)
Net Assets		
Invested in Capital Assets, Net of Related Debt	21,159,740	19,677,141
Restricted	7,862,665	9,506,134
Unrestricted	181,105	284,882
Total Net Assets	\$29,203,510	\$29,468,157

Total assets decreased \$1,522,764. Capital assets increased by \$7,146,891. Cash and cash equivalents increased \$954,109. Taxes receivable decreased \$178,910 and intergovernmental receivables decreased \$503,576.

Long-term liabilities decreased \$35,710 which is largely attributed to the decrease in bonds payable of \$235,000. This decrease is offset by School District entering into new capital lease agreements with a combined liability of \$197,213.

Other liabilities also decreased by \$1,222,407. \$863,563 of this decrease can be attributed to a decrease in contracts payable, while \$105,095 is from a decrease in retainage payable. The remaining decrease can be attributed to a decrease in accounts payable and intergovernmental payable.

Net assets decreased \$264,647. Net Assets Restricted for Capital Projects decreased \$1,640,361. Most of this decrease can be attributed to a portion of the school facilities building projects reaching completion.

Table 2 shows the changes in net assets for fiscal year 2004.

**East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

Table 2
Change in Net Assets

	Governmental Activities	
	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$981,908	\$912,106
Operating Grants, Contributions, and Interest	1,957,788	1,723,597
Capital Grants, Contributions, and Interest	83,948	320,322
Total Program Revenues	<u>3,023,644</u>	<u>2,956,025</u>
General Revenues:		
Property Taxes	5,123,224	4,973,041
Grants and Entitlements	8,762,598	8,273,410
Other General Revenues	455,482	527,479
Total General Revenues	<u>14,341,304</u>	<u>13,773,930</u>
Total Revenues	<u>17,364,948</u>	<u>16,729,955</u>
Program Expenses		
Instruction:		
Regular	8,124,144	7,239,715
Special	1,696,118	1,336,435
Vocational	242,668	206,631
Support Services:		
Pupils and Instructional Staff	941,652	1,033,945
Board of Education, Administration and Fiscal	2,174,933	1,972,321
Operation and Maintenance of Plant	1,483,105	1,711,160
Pupil Transportation	1,169,790	1,043,374
Central	119,925	66,221
Operation of Non-Instructional Services	826,077	757,142
Extracurricular Activities	496,019	508,546
Interest	355,164	355,228
Total Expenses	<u>17,629,595</u>	<u>16,230,718</u>
Change in Net Assets	<u>(\$264,647)</u>	<u>\$499,237</u>

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 30 percent of revenues for governmental activities for East Muskingum Local School District in fiscal year 2004.

**East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

Despite the School District receiving revenues from GAP Aid, the passage of House Bill 95 has had a detrimental effect on the School District. While the School District operates on a very tight budget, revenue sources are not projected to keep pace with expenses. Enrollment is also a factor in the finances of the School District. The School District lost approximately \$267,000 in outgoing open enrollment in fiscal year 2004 and in March of 2004 the board voted to become an open enrollment district beginning 2004-2005 school year.

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:				
Regular	\$8,124,144	\$7,569,880	\$7,239,715	\$6,892,302
Special	1,696,118	560,683	1,336,435	240,200
Vocational	242,668	179,835	206,631	157,247
Support Services:				
Pupils and Instructional Staff	941,652	766,636	1,033,945	945,002
Board of Education, Administration and Fiscal	2,174,933	2,171,547	1,972,321	1,971,209
Operation and Maintenance of Plant	1,483,105	1,474,208	1,711,160	1,448,342
Pupil Transportation	1,169,790	1,125,526	1,043,374	962,473
Central	119,925	88,802	66,221	36,577
Operation of Non-Instructional Services	826,077	90,292	757,142	48,738
Extracurricular Activities	496,019	223,378	508,546	217,375
Interest	355,164	355,164	355,228	355,228
Total Expenses	<u>\$17,629,595</u>	<u>\$14,605,951</u>	<u>\$16,230,718</u>	<u>\$13,274,693</u>

In November of 2000, the residents of the School District passed a \$7,443,000 Bond Levy as part of the Ohio School Facilities Construction Program. The School District built a new middle school which was opened in the fall of 2003. Construction of additions for the high school and New Concord Elementary were also completed by fall of 2003. Renovations and improvements to the high school, New Concord Elementary and the existing middle school which will be an intermediate school housing grades 3, 4, and 5 were near completion at fiscal year end. The total construction project is \$28,737,357, with the local and State share being \$7,443,000 and \$21,294,357, respectively.

Instructional programs comprise approximately 57 percent of total governmental program expenses. Of the instructional expenses, approximately 81 percent is for regular instruction, 17 percent for special instruction, and 2 percent for vocational and other instructions.

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 81.3 percent of the School District's activities being supported through taxes and other general revenues.

**East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,958,572 and expenditures of \$25,342,350. The net change in fund balance before other financing sources and uses for the year was most significant in the Classroom Facilities Capital Projects Fund, a decrease of \$6,427,236. The remaining governmental funds reflect a decrease of \$956,542. Despite the decrease the School District was still able to meet the School District obligations.

Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2004, the School District amended its General Fund appropriations, but not significantly.

For the General Fund, budget basis revenues were \$629,275 above final estimates of \$13,216,226. Of this difference, most was due to conservative tax estimates, based on the County Auditor's Certification, and conservative state funding estimates.

The School District's ending unobligated General Fund balance was \$1,146,219.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$28,239,953 invested in land, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets at June 30

	Governmental Activities	
	2004	2003
Land and Land Improvements	\$144,115	\$144,115
Construction in Progress	14,186,332	17,868,364
Buildings and Improvements	12,526,910	1,890,887
Vehicles	608,038	543,758
Machinery, Equipment, Furniture and Fixtures	774,558	645,938
Totals	\$28,239,953	\$21,093,062

See Note 9 for more detailed information of the School District's capital assets.

**East Muskingum Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited**

Debt

At June 30, 2004, the School District had \$6,975,379 general obligation bonds outstanding, including \$92,379 in accumulated accretion, with \$255,000 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2024. The School District had capital leases outstanding at June 30, 2004 in the amount of \$197,213 with \$85,757 due in one year. See Note 17 for more detailed information about the School District's debt.

Set-asides

For fiscal year 2004, Ohio Law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2004, this amounted to \$280,761 for each set aside. For fiscal year 2004, the School District had qualifying disbursements or offsets exceeding the \$280,761 requirement for textbooks and capital maintenance. See Note 21 for additional information about the School District's set-asides.

Economic Factors

East Muskingum Local School District ended fiscal year 2004 with a negative cash flow primarily due to the construction costs incurred for the Ohio School Facilities Construction Program. Currently we are financially stable but there are some uncontrollable variables that will affect future revenues. Some of these include the elimination of the three year averaging for ADM, accelerated phase out of personal property tax on inventory, state deduction for fees from rollback and homestead funds and reducing bus subsidy by 52 percent.

Based on these factors, the Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District. To continue to do this, the Board approved open enrollment for the 2004-2005 school year and made staff cuts totaling approximately \$180,000.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Christine L. White, Treasurer/CFO at East Muskingum Local School District, 13505 John Glenn School Road, New Concord, Ohio 43762, or e-mail at cwhite@east-muskingum.k12.oh.us.

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East Muskingum Local School District, Ohio
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,229,372
Cash and Cash Equivalents in Segregated Accounts	1,300
Cash and Cash Equivalents with Escrow Agents	330,909
Accounts Receivable	92,355
Intergovernmental Receivable	1,684,089
Inventory Held for Resale	5,048
Materials and Supplies Inventory	103,824
Prepaid Items	164,380
Property Taxes Receivable	5,318,474
Revenue in Lieu of Taxes Receivable	201,247
Nondepreciable Capital Assets	14,330,447
Depreciable Capital Assets, Net	13,909,506
Total Assets	44,370,951
Liabilities	
Accounts Payable	106,726
Accrued Wages and Benefits Payable	1,411,414
Matured Compensated Absences Payable	29,781
Contracts Payable	136,740
Other Post-Employment Benefits Payable	58,749
Accrued Interest Payable	24,418
Intergovernmental Payable	391,323
Vacation Benefits Payable	43,367
Retainage Payable	330,909
Claims Payable	138,314
Deferred Revenue	2,912,573
Long-Term Liabilities:	
Due Within One Year	391,731
Due In More Than One Year	9,191,396
Total Liabilities	15,167,441
Net Assets	
Invested in Capital Assets, Net of Related Debt	21,159,740
Restricted for:	
Capital Projects	6,917,329
Debt Service	507,798
Other Purposes	437,538
Unrestricted	181,105
Total Net Assets	\$29,203,510

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$8,124,144	\$182,821	\$316,443	\$55,000	(\$7,569,880)
Special	1,696,118	43,775	1,091,660	0	(560,683)
Vocational	242,668	0	62,833	0	(179,835)
Support Services:					
Pupils	358,286	0	33,569	0	(324,717)
Instructional Staff	583,366	0	141,447	0	(441,919)
Board of Education	49,193	0	0	0	(49,193)
Administration	1,744,231	0	3,386	0	(1,740,845)
Fiscal	381,509	0	0	0	(381,509)
Operation and Maintenance of Plant	1,483,105	8,897	0	0	(1,474,208)
Pupil Transportation	1,169,790	0	15,316	28,948	(1,125,526)
Central	119,925	0	31,123	0	(88,802)
Operation of Non-Instructional Services:					
Food Service Operations	818,769	473,982	261,803	0	(82,984)
Other Non-Instructional Services	7,308	0	0	0	(7,308)
Extracurricular Activities	496,019	272,433	208	0	(223,378)
Interest	355,164	0	0	0	(355,164)
Total Governmental Activities	\$17,629,595	\$981,908	\$1,957,788	\$83,948	(14,605,951)

General Revenues

Property Taxes Levied for:

General Purposes	4,074,438
Capital Outlay	438,463
Debt Service	530,648
Other Purposes	79,675
Grants and Entitlements not Restricted to Specific Programs	8,762,598
Investment Earnings	128,492
Payment in Lieu of Taxes	135,565
Gain on Sale of Capital Assets	5,425
Miscellaneous	186,000
Total General Revenues	14,341,304

Change in Net Assets (264,647)

Net Assets Beginning of Year - Restated (See Note 3) 29,468,157

Net Assets End of Year \$29,203,510

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2004

	General	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,346,471	\$2,800,954	\$2,469,552	\$739,804	\$7,356,781
Cash and Cash Equivalents in Segregated Accounts	0	0	0	1,300	1,300
Accounts Receivable	30,494	100	61,761	0	92,355
Intergovernmental Receivable	48,657	0	1,518,167	117,265	1,684,089
Inventory Held for Resale	0	0	0	5,048	5,048
Materials and Supplies Inventory	101,603	0	0	2,221	103,824
Prepaid Items	154,977	0	0	9,403	164,380
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	36,160	0	0	0	36,160
Cash and Cash Equivalents with Escrow Agents	0	0	330,909	0	330,909
Property Taxes Receivable	4,218,934	462,436	0	637,104	5,318,474
Revenue in Lieu of Taxes Receivable	162,787	19,331	0	19,129	201,247
Total Assets	\$6,100,083	\$3,282,821	\$4,380,389	\$1,531,274	\$15,294,567
Liabilities					
Accounts Payable	57,141	24,785	0	24,800	106,726
Accrued Wages and Benefits Payable	1,294,434	0	0	116,980	1,411,414
Matured Compensated Absences Payable	29,781	0	0	0	29,781
Contracts Payable	0	79,252	57,488	0	136,740
Other Post-Employment Benefits Payable	58,749	0	0	0	58,749
Intergovernmental Payable	230,603	0	0	14,005	244,608
Retainage Payable	0	0	330,909	0	330,909
Deferred Revenue	2,629,355	291,952	1,518,167	421,539	4,861,013
Total Liabilities	4,300,063	395,989	1,906,564	577,324	7,179,940
Fund Balances					
Reserved for Encumbrances	205,561	128,795	2,206,584	57,654	2,598,594
Reserved for Unclaimed Monies	1,052	0	0	0	1,052
Reserved for Budget Stabilization	10,889	0	0	0	10,889
Reserved for Bus Purchase	25,271	0	0	0	25,271
Reserved for Property Taxes	1,594,553	170,584	0	245,208	2,010,345
Unreserved:					
Undesignated, Reported in:					
General Fund	(37,306)	0	0	0	(37,306)
Special Revenue Funds	0	0	0	371,089	371,089
Debt Service Funds	0	0	0	278,735	278,735
Capital Projects Funds	0	2,587,453	267,241	1,264	2,855,958
Total Fund Balances	1,800,020	2,886,832	2,473,825	953,950	8,114,627
Total Liabilities and Fund Balances	\$6,100,083	\$3,282,821	\$4,380,389	\$1,531,274	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 28,239,953

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	395,556	
Accounts Receivable	4,111	
Grants	1,548,773	1,948,440

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 698,117

Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (146,715)

Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available resources and therefore are not reported in the funds. (24,418)

Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(6,883,000)	
Accretion on Bonds	(92,379)	
Other Post-Employment Benefits	(1,381,079)	
Vacation Benefits Payable	(43,367)	
Compensated Absences	(1,029,456)	
Capital Leases	(197,213)	(9,626,494)

Net Assets of Governmental Activities \$29,203,510

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$4,141,389	\$447,410	\$0	\$622,051	\$5,210,850
Payment in Lieu of Taxes	109,579	12,962	0	13,024	135,565
Intergovernmental	9,491,824	51,921	532,449	1,230,258	11,306,452
Interest	33,892	37,911	53,694	4,319	129,816
Tuition and Fees	176,182	0	0	0	176,182
Extracurricular Activities	0	0	0	275,312	275,312
Rentals	8,897	0	0	0	8,897
Charges for Services	7,821	0	0	473,982	481,803
Contributions and Donations	50,819	0	0	0	50,819
Miscellaneous	87,419	30,496	61,761	3,200	182,876
Total Revenues	<u>14,107,822</u>	<u>580,700</u>	<u>647,904</u>	<u>2,622,146</u>	<u>17,958,572</u>
Expenditures					
Current:					
Instruction:					
Regular	7,356,625	217,805	0	318,744	7,893,174
Special	1,259,215	0	0	400,146	1,659,361
Vocational	215,025	0	0	0	215,025
Support Services:					
Pupils	309,174	0	0	27,763	336,937
Instructional Staff	435,241	0	0	123,976	559,217
Board of Education	43,452	0	0	0	43,452
Administration	1,632,726	0	0	2,187	1,634,913
Fiscal	331,597	10,575	0	14,124	356,296
Operation and Maintenance of Plant	1,395,211	44,348	0	86,270	1,525,829
Pupil Transportation	1,020,338	51,900	0	0	1,072,238
Central	79,321	0	0	35,161	114,482
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	759,264	759,264
Other Non-Instructional Services	13,491	0	0	0	13,491
Extracurricular Activities	200,466	0	0	271,237	471,703
Capital Outlay	237,905	734,166	7,075,140	0	8,047,211
Debt Service:					
Principal Retirement	82,263	0	0	235,000	317,263
Interest and Fiscal Charges	10,034	0	0	312,460	322,494
Total Expenditures	<u>14,622,084</u>	<u>1,058,794</u>	<u>7,075,140</u>	<u>2,586,332</u>	<u>25,342,350</u>
Excess of Revenues Over (Under) Expenditures	<u>(514,262)</u>	<u>(478,094)</u>	<u>(6,427,236)</u>	<u>35,814</u>	<u>(7,383,778)</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Capital Assets	6,102	0	0	0	6,102
Inception of Capital Lease	235,596	0	0	0	235,596
Total Other Financing Sources (Uses)	<u>241,698</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>241,698</u>
Net Change in Fund Balances	(272,564)	(478,094)	(6,427,236)	35,814	(7,142,080)
Fund Balances Beginning of Year	2,072,584	3,364,926	8,901,061	918,136	15,256,707
Fund Balances End of Year	<u>\$1,800,020</u>	<u>\$2,886,832</u>	<u>\$2,473,825</u>	<u>\$953,950</u>	<u>\$8,114,627</u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
 Reconciliation of the Changes in Fund Balances of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds (\$7,142,080)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:

Fixed Asset Additions	7,652,647	
Current Year Depreciation	<u>(505,079)</u>	7,147,568

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain has been reported for the disposal. These amounts are used as a reconciling item between the statement of activities and the fund financial statements.

Gain on Sale of Capital Assets	5,425	
Proceeds from Sale of Capital Assets	<u>(6,102)</u>	(677)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property Taxes	(87,626)	
Tuition	(4,061)	
Accounts Receivable	3,124	
Grants	<u>(510,486)</u>	(599,049)

Some capital assets were financed through capital leases. Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets. 82,263

The inception of a capital lease is reported as an other financing source in the governmental funds, but increases long-term liabilities on the statement of net assets (235,596)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 235,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 667

Accretion on capital appreciation bonds is an expenditure in the governmental funds but is allocated as an expense over the life of the bonds on a full accrual basis. (33,337)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Pension Obligation	(13,292)	
Other Post-Employment Benefits	(29,185)	
Vacation Benefits Payable	(43,367)	
Compensated Absences	<u>16,565</u>	(69,279)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net expense of the internal service fund is reported with governmental activities. 349,873

Change in Net Assets of Governmental Activities (\$264,647)

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$3,658,462	\$3,658,462	\$3,938,657	\$280,195
Revenue in Lieu of Taxes	78,282	78,282	94,386	16,104
Intergovernmental	9,195,590	9,201,727	9,484,399	282,672
Interest	40,000	40,000	33,892	(6,108)
Tuition and Fees	129,191	128,945	164,754	35,809
Rentals	7,500	7,500	8,857	1,357
Charges for Services	8,000	8,000	7,821	(179)
Contributions and Donations	69,877	69,877	50,819	(19,058)
Miscellaneous	11,994	23,433	61,916	38,483
Total Revenues	13,198,896	13,216,226	13,845,501	629,275
Expenditures				
Current:				
Instruction:				
Regular	8,196,951	7,795,819	7,614,450	181,369
Special	951,805	1,273,155	1,257,317	15,838
Vocational	223,110	231,716	223,456	8,260
Support Services:				
Pupils	408,078	408,080	365,386	42,694
Instructional Staff	628,882	458,228	445,048	13,180
Board of Education	56,275	58,953	56,751	2,202
Administration	1,669,786	1,687,187	1,632,787	54,400
Fiscal	324,553	340,021	333,271	6,750
Operation and Maintenance of Plant	1,303,715	1,523,215	1,420,423	102,792
Pupil Transportation	1,078,205	1,078,208	1,020,820	57,388
Central	94,862	94,862	80,656	14,206
Extracurricular Activities	216,005	215,679	214,201	1,478
Capital Outlay	6,400	6,400	2,309	4,091
Total Expenditures	15,158,627	15,171,523	14,666,875	504,648
Excess of Revenues Under Expenditures	(1,959,731)	(1,955,297)	(821,374)	1,133,923
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	465	465	6,102	5,637
Refund of Prior Year Expenditures	0	0	2,226	2,226
Total Other Financing Sources (Uses)	465	465	8,328	7,863
Net Change in Fund Balance	(1,959,266)	(1,954,832)	(813,046)	1,141,786
Fund Balance Beginning of Year	1,482,918	1,482,918	1,482,918	0
Prior Year Encumbrances Appropriated	476,347	476,347	476,347	0
Fund Balance End of Year	(\$1)	\$4,433	\$1,146,219	\$1,141,786

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Fund Net Assets
Self-Insurance Internal Service Fund
June 30, 2004

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$836,431</u>
Total Assets	<u>836,431</u>
Current Liabilities	
Claims Payable	<u>138,314</u>
Total Liabilities	<u>138,314</u>
Net Assets	
Unrestricted	<u><u>\$698,117</u></u>

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$1,834,837
Operating Expenses	
Purchased Services	239,841
Claims	1,245,123
Total Operating Expenses	1,484,964
Operating Income	349,873
Net Assets Beginning of Year	348,244
Net Assets End of Year	\$698,117

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Cash Flows
Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Medical-Dental Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$1,834,837
Cash Payments for Goods and Services	(239,841)
Cash Payments for Claims	(1,245,330)
Net Increase in Cash and Cash Equivalents	349,666
Cash and Cash Equivalents Beginning of Year	486,765
Cash and Cash Equivalents End of Year	\$836,431
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$349,873
Decrease in Claims Payable	(207)
Net Cash Provided by Operating Activities	\$349,666

See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$34,433</u></u>
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Liabilities

Due to Students	<u><u>\$34,433</u></u>
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See accompanying notes to the basic financial statements

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

The East Muskingum Local School District (the School District), is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1958 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 192 square miles. It is located in Muskingum and Guernsey Counties, and includes all of the Village of New Concord, Ohio. The School District is staffed by 98 classified employees and 155 certificated full-time teaching personnel who provide services to 2,123 students and other community members. The School District currently operates 6 instructional buildings, 2 administrative buildings, and 4 garage/storage buildings.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For East Muskingum Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has one component unit, the East Muskingum Digital Academy.

On April 15, 2004, the Board of Education, by resolution, created the East Muskingum Digital Academy pursuant to the laws of the State of Ohio. The Digital Academy is a legally separate entity which is governed by a 5 member board. The School District appoints 4 members and Tri-Rivers Educational Computer Association appoints one member. The Digital Academy was created to offer a distance learning-based curriculum to school-age children residing in the School District. The Digital Academy board may adopt policies, hire and fire employees, and receive funding from the Ohio Department of Education. No significant financial activity occurred for the Digital Academy during fiscal year 2004. The Digital Academy will be presented as a discretely presented component unit once it begins operations.

The School District participates in three organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association (TRECA), the Mid-East Ohio Career and Technology Centers, the School Study Council of Ohio, the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Ohio School Plan. These organizations are presented in Notes 18 and 19 to the general purpose financial statements.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The Internal Service Fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund, Permanent Improvement Capital Projects and Classroom Facilities Capital Projects Funds are the major funds of the School District. The following is a description of these funds:

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Permanent Improvement Fund The Permanent Improvement Capital Projects Fund is used to account for the accumulation of a local levy and transfers for the cost of acquiring, constructing, or improving permanent improvements within the School District.

Classroom Facilities Fund The Classroom Facilities Capital Projects Fund is used to account for the revenues and expenditures related to the construction and renovations of facilities of the School District being financed through bonds and monies received from the Ohio Department of Education.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical/surgical and dental claims.

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student managed activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, revenue in lieu of taxes, interest, tuition, grants, fees, and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds that are not otherwise invested, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

The School District has a segregated bank account for monies held separate from the School District's central bank account. This interest bearing depository account is presented on the balance sheet as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the School District treasury. The School District maintains an escrow account that is held separate from the School District's central bank account and is reflected in the financial statements as "Restricted Assets: Cash and Cash Equivalents with Escrow Agents."

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit which are reported at cost and money market mutual funds which are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$33,892, which includes \$13,302 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

East Muskingum Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	5-30 years
Furniture, Fixtures and Equipment	5-15 years
Vehicles	3-10 years

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization and revenues restricted for the purchase of buses. See Note 21 for additional information regarding set asides. Restricted assets also include amounts deposited in an escrow account for retainage as required by State statute.

J. Compensated Absences and Other Post-Employment Benefits

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Sick leave and retirement longevity/service benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave and estimated retirement longevity/service pay after fifteen years of current service with the School District.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the General Fund.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases and general obligation bonds are recognized as a liability on the governmental fund financial statements when due.

L. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

M. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, unclaimed monies, property taxes, budget stabilization, and bus purchase.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. Under Ohio law, unclaimed money must be held for five years before it becomes available for appropriation. Money not yet held for the five year period is presented as reserved.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

Q. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

R. Budgetary Data

All funds, other than agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate of estimated resources in effect at the time the final appropriations were passed by the Board.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year

Note 3 – Change in Accounting Principle and Restatement of Net Assets

Change in Accounting Principle For fiscal year 2004, the School District has implemented GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”. This Statement further defines the guidelines of GASB Statement No. 14, “The Financial Reporting Entity”. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2003.

Restatement of Net Assets The School District had a restatement of net assets as of June 30, 2003 due to the correction of an error in Long-Term Liabilities – Due in More Than One Year. This restatement had the following effect on net assets of the School District as they were previously reported.

	<u>Total</u>
Governmental Activities Net Assets, June 30, 2003	\$30,795,381
Long-term Liabilities	<u>(1,327,224)</u>
Governmental Activities Net Assets, June 30, 2003 - Restated	<u>\$29,468,157</u>

Note 4 - Accountability

At June 30, 2004, the Title I Special Revenue Fund had a deficit fund balance in the amount of \$18,033. This deficit was due to adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$272,564)
Net Adjustment for Revenue Accruals	(495,691)
Net Adjustment for Expenditure Accruals	211,951
Prepaid Items - Beginning of Fiscal Year	134,641
Prepaid Items - End of Fiscal Year	(154,977)
Adjustment for Encumbrances	(236,406)
Budget Basis	<u><u>(\$813,046)</u></u>

Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits At fiscal year end, the carrying amount of the School District's deposits was (\$259,014) and the bank balance was \$131,650. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$31,650 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. Mutual fund investments are not classified by risk because they are not evidenced by securities that exist in physical or book entry form. Their fair value is \$8,855,028 at June 30, 2004.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$8,596,014	\$0
Investment in Money Market Mutual Funds	<u>(8,855,028)</u>	<u>8,855,028</u>
GASB Statement 3	<u>(\$259,014)</u>	<u>\$8,855,028</u>

Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2003, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Muskingum and Guernsey Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Accrued property taxes receivable includes real property, personal property and public utility taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations. The amount available as an advance at June 30, 2004, was \$2,010,345. \$1,594,553 was available in the General Fund, \$32,010 in the Classroom Facilities Maintenance Special Revenue Fund, \$213,198 in the Debt Service Fund, and \$170,584 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2003 was \$1,418,866 in the General Fund, \$30,707 in the Classroom Facilities Special Revenue Fund, \$196,601 in the Debt Service Fund, and \$163,803 in the Permanent Improvement Capital Projects Fund. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$150,050,610	83.70%	\$167,498,260	86.44%
Public Utility Personal	14,195,150	7.92%	14,577,840	7.52%
Tangible Personal Property	15,024,075	8.38%	11,713,316	6.04%
Total	\$179,269,835	100.00%	\$193,789,416	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$39.81		 \$39.81	

Note 8 - Receivables

Receivables at June 30, 2004, consisted of property taxes, accounts (rent, student fees and tuition), intergovernmental grants, and revenue in lieu of taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	<u>Amounts</u>
Governmental Activities	
CAFS Reimbursement	\$12,935
Tuition	29,314
Title VI-B	34,218
Title I	18,639
Title II-A	23,186
Student Intervention	18,447
Ohio School Facilities	1,518,167
Food Service Reimbursements	22,775
Miscellaneous	6,408
Total	<u><u>\$1,684,089</u></u>

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	Balance <u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>
Nondepreciable Capital Assets				
Land	\$144,115	\$0	\$0	\$144,115
Construction in Progress	17,868,364	6,946,722	(10,628,754)	14,186,332
Total Non-Depreciable Capital Assets	<u>18,012,479</u>	<u>6,946,722</u>	<u>(10,628,754)</u>	<u>14,330,447</u>
Depreciable Capital Assets				
Buildings and Improvements	10,315,810	10,896,752	0	21,212,562
Furniture, Fixtures, and Equipment	1,113,747	326,323	(12,219)	1,427,851
Vehicles	1,666,330	111,604	(74,406)	1,703,528
Total at Historical Cost	<u>13,095,887</u>	<u>11,334,679</u>	<u>(86,625)</u>	<u>24,343,941</u>
Less Accumulated Depreciation				
Buildings and Improvements	(8,424,923)	(260,729)	0	(8,685,652)
Furniture, Fixtures, and Equipment	(569,989)	(94,846)	11,542	(653,293)
Vehicles	(1,020,392)	(149,504)	74,406	(1,095,490)
Total Accumulated Depreciation	<u>(10,015,304)</u>	<u>(505,079) *</u>	<u>85,948</u>	<u>(10,434,435)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>3,080,583</u>	<u>10,829,600</u>	<u>(677)</u>	<u>13,909,506</u>
Governmental Activities Capital Assets, Net	<u>\$21,093,062</u>	<u>\$17,776,322</u>	<u>(\$10,629,431)</u>	<u>\$28,239,953</u>

* Depreciation expense was charged to governmental functions as follows:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Instruction:	
Regular	\$169,611
Special	26,038
Vocational	3,411
Support Services:	
Pupils	5,423
Instructional Staff	12,124
Board of Education	3,115
Administration	32,783
Fiscal	3,707
Operation of Maintenance and Plant	39,398
Pupil Transportation	162,196
Central	1,542
Extracurricular	6,817
Food Service Operations	<u>38,914</u>
 Total Depreciation Expense	 <u><u>\$505,079</u></u>

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District purchased the following coverage:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

<u>Ohio School Plan - Harcum Schuett Agency</u>		
Fleet Insurance:		
Liability	\$1,000,000	any one accident
Auto Medical Payments	\$5,000	
Comprehensive		actual cash value
Physical Damage		actual cash value
Collision		actual cash value
Building, Personal Property, and Contents	\$50,030,900	
<u>Ohio School Plan</u>		
General Liability:		
Bodily Injury and Property Damage	\$1,000,000	each occurrence
Fire Damage	\$500,000	any one event
Medical Expense	\$10,000	each accident
General Aggregate	\$3,000,000	
Products Aggregate	\$1,000,000	
Employee Benefits Liability	\$1,000,000	
Aggregate	\$3,000,000	
Employers' Liability	\$1,000,000	
Errors and Omissions	\$1,000,000	
Aggregate	\$2,000,000	
Employment Practices	\$1,000,000	
Aggregate	\$2,000,000	
<u>Handschy-Graham-Taylor Agency</u>		
Boiler and Machinery	\$12,745,324	

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last fiscal year.

During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 19)

B. Worker's Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

C. Employee Medical/Surgical and Dental Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Central Benefits serves as claims servicer for medical/surgical coverage and CoreSource services as claims servicer for dental coverage. The claims liability of \$138,314 reported in the internal service fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in fiscal years 2003 and 2004 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2003	\$204,089	\$1,304,492	\$1,370,060	\$138,521
2004	\$138,521	\$1,245,123	\$1,245,330	\$138,314

Note 11 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from Board policy and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. With the exception of the Treasurer, unused vacation time at the end of a fiscal year is not accumulated or carried forward to the next fiscal year. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 40 days for all employees and 50 days for the superintendent.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Anthem Life Insurance Company.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

C. Other Post-Employment Benefits Payable

Employees who retire are eligible for a retirement longevity/service benefit. For every year of service credit with East Muskingum Local School District, up through ten years, employees are given one percent of their annual salary earned in the contract year of employment completed upon retirement. For every year of service credit with East Muskingum Local School District, between eleven and twenty years, employees are given one and one quarter percent of their annual salary earned in the contract year of employment completed upon retirement. For every year of service credit with East Muskingum Local School District, over twenty-one years, up through the final year of employment, employees are given one and one half percent of their annual salary earned in the contract year of employment completed upon retirement. Retiree's must notify the District by April 1 of each year as to their intent to retire and to apply for the retirement longevity/service benefit. Payment of the retirement longevity/service benefits is limited to five percent of the number of employees in each year based upon seniority. The benefit is paid in one lump sum at the time of retirement from the fund and function that pays the employees' salaries.

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$200,212, \$167,657, and \$90,376, respectively; 46 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$108,271 representing the unpaid contribution for fiscal year 2004, is recorded as a liability in the respective funds.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS Ohio. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$990,458, \$994,811, and \$652,555 respectively; 85 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. Contributions for the DC and CP Plans for the fiscal year ended June 30, 2004, were \$8,303 made by the School District and \$8,643 made by plan members. The balance outstanding is reflected as an intergovernmental payable.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, there are no employees who have elected Social Security.

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System, (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$76,189 for fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$146,715.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 14 – Contractual Commitments

Contractual commitments at June 30, 2004 were as follows:

Project	Fund	Purchase Commitments	Amounts Paid as of 06/30/04	Amounts Remaining on Contracts
High School Additions/ Renovations	School Facilities	\$9,611,888	\$8,571,733	\$1,040,155
Elementary Additions/ Renovations	School Facilities	\$2,592,625	\$2,176,571	\$416,054
Intermediate School	School Facilities	\$2,945,060	\$2,576,379	\$368,681

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 15 – Fund Obligation

During fiscal year 2004, the School District retired an energy conservation note outstanding which was a liability of the General Fund. Property tax revenues were being utilized for the payment of this obligation.

	<u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/04</u>
Energy Conservation Loan	\$26,392	\$0	\$26,392	\$0

Note 16 - Capitalized Leases

The School District has entered into a capitalized lease for three copiers. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the General Fund.

The agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending June 30,	Governmental Activities
2005	\$92,416
2006	92,416
2007	16,187
2008	7,052
2009	668
Total Minimum Lease Payments	208,739
Less: Amount Representing Interest	(11,526)
Present Value of Minimum Lease Payments	<u>\$197,213</u>

The copiers have been originally capitalized in the amount of \$66,517, the present value of the minimum lease payments at the inception of the lease. Accumulated depreciation as of June 30, 2004 was \$21,880, leaving a current book value of \$44,637. The fitness equipment has been originally capitalized in the amount of \$218,901, present value of the minimum lease payments at the inception of the lease. Accumulated depreciation as of June 30, 2004 was \$43,780, leaving a current book value of \$175,121. Principal payments in fiscal year 2004 totaled \$11,370 for the copiers and \$70,893 for the fitness equipment in the Governmental Funds.

Note 17 - Long-Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	Outstanding 06/30/03	Additions	Reductions	Outstanding 06/30/04	Due in One Year
Governmental Activities:					
2001 School Facilities Current Interest Serial Bonds - 4.85%	\$4,055,000	\$0	\$235,000	\$3,820,000	\$255,000
2001 School Facilities Current Interest Term Bonds - 5%	2,850,000	0	0	2,850,000	0
2001 School Facilities Capital Appreciation Bonds	213,000	0	0	213,000	0
Accumulated Accretion	59,042	33,337	0	92,379	0
Total General Obligation Bonds	<u>7,177,042</u>	<u>33,337</u>	<u>235,000</u>	<u>6,975,379</u>	<u>255,000</u>
Capital Leases	43,880	235,596	82,263	197,213	85,757
Compensated Absences Payable	1,046,021	19,154	35,719	1,029,456	37,011
Other Post-Employment Benefits Payable	<u>1,351,894</u>	<u>98,099</u>	<u>68,914</u>	<u>1,381,079</u>	<u>13,963</u>
Total Long-Term Obligations	<u>\$9,618,837</u>	<u>\$386,186</u>	<u>\$421,896</u>	<u>\$9,583,127</u>	<u>\$391,731</u>

Compensated absences and the other post-employment benefits payable will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Food Service, Miscellaneous Federal Grants, Title I, and Title II-A Special Revenue Funds. The capital leases will be paid from the General Fund.

On April 19, 2001, the School District issued \$7,443,000 in voted general obligation bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a twenty-three year period with a final maturity at December 1, 2023. The bonds will be retired from the debt service fund. In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new buildings. The School District must maintain a maintenance plan and submit it to the Ohio School Facilities Commission every five years for the term of the bond.

The bond issue consists of serial, term, and capital appreciation bonds. The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2018	\$420,000
2019	\$440,000

The remaining principal amount of such Current Interest Term Bonds (\$460,000) will mature at stated maturity on December 1, 2020.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2021	\$485,000
2022	510,000

The remaining principal amount of such Current Interest Term Bonds (\$535,000) will mature at stated maturity on December 1, 2023.

The capital appreciation bonds mature December 1, 2009 and 2010. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$610,000. The fiscal year 2004 accretion amount is \$33,337.

Principal and interest payments to retire general obligation debt outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30	Serial		Capital Appreciation		Term		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2005	\$255,000	\$303,758	\$0	\$0	\$0	\$0	\$255,000	\$303,758
2006	265,000	294,265	0	0	0	0	265,000	294,265
2007	270,000	284,232	0	0	0	0	270,000	284,232
2008	280,000	273,503	0	0	0	0	280,000	273,503
2009	295,000	261,929	0	0	0	0	295,000	261,929
2010-2014	960,000	705,715	213,000	908,910	0	0	1,173,000	1,614,625
2015-2019	1,495,000	716,807	0	0	420,000	132,000	1,915,000	848,807
2020-2024	0	0	0	0	2,430,000	315,750	2,430,000	315,750
Total	\$3,820,000	\$2,840,209	\$213,000	\$908,910	\$2,850,000	\$447,750	\$6,883,000	\$4,196,869

The School District's overall legal debt margin was \$10,836,782, with an unvoted debt margin of \$193,789 at June 30, 2004.

Note 18 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association (TRECA)

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302. During 2004, the School District paid \$47,440 for services with TRECA.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

B. Mid-East Ohio Career and Technology Centers

The Mid-East Ohio Career and Technology Centers is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 13 participating school districts' elected boards. The Board possesses its own budgeting and taxing authority. The board controls the financial activity of the Joint Vocational School District and reports to the Ohio Department of Education and the Auditor of State of Ohio. To obtain financial information write to the Mid-East Career and Technology Centers, Richard White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701. The School District made no payments to the Joint Vocational School District during fiscal year 2004.

C. School Study Council of Ohio

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous representatives from Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts can have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and to vote. School districts may elect to be associate members, which entitles them to attend meetings and participate in Council discussions but not to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2004, the Board consisted of fourteen members. The School District made no payments to the School Study Council of Ohio during fiscal year 2004.

Note 19 - Insurance Purchasing Pools

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 20 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The School District is currently not a party to any legal proceedings.

Note 21 - Set Asides

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may, at the discretion of the board, be returned to the district's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation refund monies remaining in the budget reserve set-aside.

The following cash basis information describes the change in the year end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2004	(\$112,250)	(\$4,908,335)	\$22,534
Current Year Set-aside Requirement	280,761	280,761	0
Current Year Offsets	(174,099)	(879,872)	0
Qualifying Disbursements	<u>(267,918)</u>	<u>(61,846)</u>	<u>(11,645)</u>
Total	<u>(\$273,506)</u>	<u>(\$5,569,292)</u>	<u>\$10,889</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$273,506)</u>	<u>(\$5,569,292)</u>	<u>\$10,889</u>

East Muskingum Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set-aside amounts to or below zero. The extra amount in the textbook set-aside may be used to reduce the set-aside requirements of future years.

Note 22 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR <i>Pass-Through Grantor/ Program Title</i>	Pass-Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550		\$78,353		\$78,353
School Breakfast Program	048835-05PU-2003	10.553	\$3,254		\$3,254	
School Breakfast Program	048835-05PU-2004	10.553	10,869		10,869	
Total School Breakfast Program			<u>14,123</u>	<u>0</u>	<u>14,123</u>	<u>0</u>
National School Lunch Program	048835-LLP4-2003	10.555	43,387		43,387	
National School Lunch Program	048835-LLP4-2004	10.555	118,136		118,136	
Total National School Lunch Program			<u>161,523</u>	<u>0</u>	<u>161,523</u>	<u>0</u>
Total United States Department of Agriculture - Child Nutrition Cluster			175,646	78,353	175,646	78,353
UNITED STATES DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	048835-C1S1-2003	84.010	49,142		72,349	
	048835-C1S1-2004	84.010	310,529		280,171	
Total Title I Grants to Local Educational Agencies			<u>359,671</u>	<u>0</u>	<u>352,520</u>	<u>0</u>
Special Education Grants to States (Title VI-B)	048835-6BSF-2002	84.027	16,307		33,024	
	048835-6BSF-2003	84.027	198,323		165,698	
Total Special Education Grants to States			<u>214,630</u>	<u>0</u>	<u>198,722</u>	<u>0</u>
Safe and Drug Free Schools and and Communities State Grants	048835-DRS1-2004	84.186	12,780		12,780	
Innovative Education Program Strategies Grant (Title VI)	048835-C2S1-2001	84.298	(50)			
	048835-C2S1-2003	84.298	(2,052)		84	
	048835-C2S1-2004	84.298	27,220		26,835	
Total Innovative Education Program Strategies Grants			<u>25,118</u>	<u>0</u>	<u>26,919</u>	<u>0</u>
Education Technology State Grants (Title II-D)	048835-TJS1-2003	84.318	(962)		53	
	048835-TJS1-2004	84.318	8,201		6,005	
Total Education Technology State Grants			<u>7,239</u>	<u>0</u>	<u>6,058</u>	<u>0</u>
Assistive Technology Infusion Project	048835-ATS3-2004	84.352			134	
Improving Teacher Quality State Grants (Title II-A)	048835-TRS1-2003	84.367	13,283		14,946	
	048835-TRS1-2004	84.367	122,910		116,129	
Total Improving Teacher Quality State Grants			<u>136,193</u>	<u>0</u>	<u>131,075</u>	<u>0</u>
Total United States Department of Education			755,631	0	728,208	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Passed Through Ohio Department of Job and Family Services and Ohio Department of Education:</i>						
Temporary Assistance to Needy Families	N/A	93.558	4,639			
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (Medicaid, Title XIX)	N/A	93.778	39,691		39,691	
Total United States Department of Health and Human Services			<u>44,330</u>	<u>0</u>	<u>39,691</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$975,607</u>	<u>\$78,353</u>	<u>\$943,545</u>	<u>\$78,353</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes the activity of the School District’s federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed that federal monies are expended first.

NOTE C – TRANSFERS DUE TO REALLOCATION

Effective for Fiscal Year 2003 and beyond, Ohio Department of Education (ODE) permitted School Districts to reallocate funding between certain Federal programs, including, but not limited to, CFDA No. 84.010 (Title I), CFDA No. 84.367 (Improving Teacher Quality State Grants) and 84.298 (Innovative Education Program Strategies Grant). The School District reallocated various amounts between these programs as outlined below.

The following table summarizes the transfers to reallocate funding between Federal programs.

	CFDA No. 84.010 (2003 grant year)	CFDA No. 84.367 (2003 grant year)	CFDA No. 84.367 (2004 grant year)	CFDA No. 84.298 (2003 grant year)	CFDA No. 84.298 (2004 grant year)
Grant Funds Received	\$19,821	\$41,227	\$136,910	(\$675)	\$13,220
Transfer to Reallocate	29,321	(27,944)	(14,000)	(1,377)	14,000
Receipts Per Schedule	\$49,142	\$13,283	\$122,910	(\$2,052)	\$27,220

NOTE D – MATCHING REQUIREMENTS

Certain Federal programs require the School District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

East Muskingum Local School District
Muskingum County
13505 John Glenn Road
New Concord, Ohio 43762-9702

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated March 29, 2005, we reported another matter involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated March 29, 2005, we reported another matter related to noncompliance we deemed immaterial.

East Muskingum Local School District
Muskingum County
Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 29, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

East Muskingum Local School District
Muskingum County
13505 John Glenn School Road
New Concord, Ohio 43762-9702

To the Board of Education:

Compliance

We have audited the compliance of the East Muskingum Local School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The School District's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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East Muskingum Local School District
Muskingum County
Independent Accountants' Report on Compliance with Requirements Applicable
to the Major Federal Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 29, 2005

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Title I, Grants to Local Educational Agencies – C.F.D.A. 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2004
(Continued)**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

There were no findings related to the financial statements required to be reported herein.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards that were required to be reported herein.



**Auditor of State
Betty Montgomery**

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**